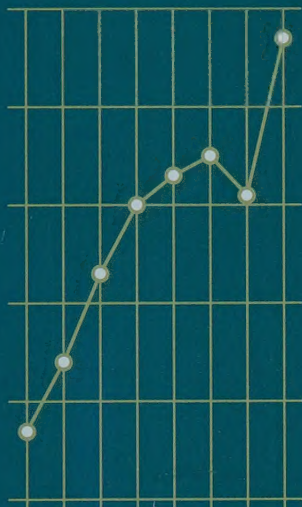
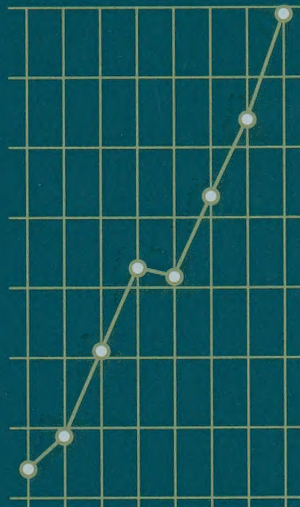


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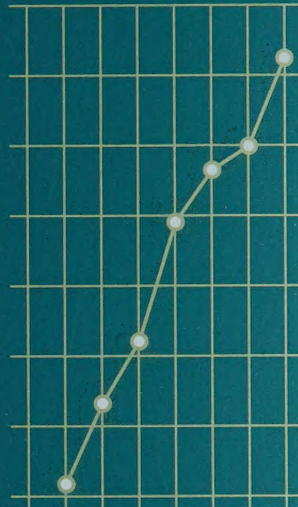
Cash Flow



Production



Reserves



A n n u a l
R e p o r t



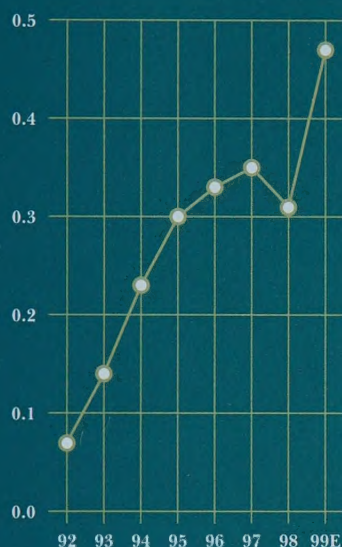
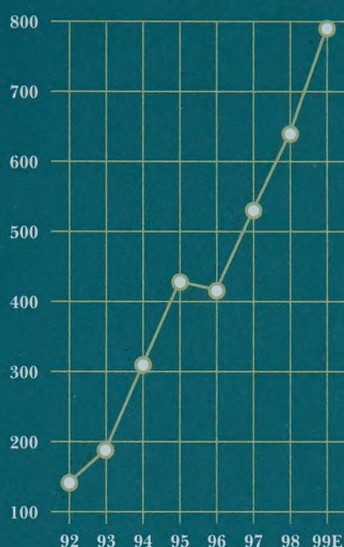
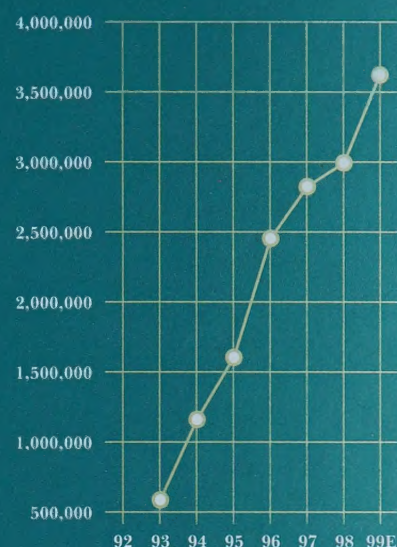
V E N A T O R
P E T R O L E U M
C O M P A N Y L T D

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Annual Meeting

The Annual Meeting of Shareholders will be held on Friday, June 4, 1999 at 2:00 p.m., in Viking Room 'A' of the Calgary Petroleum Club, 319 - 5th Avenue S.W., Calgary, Alberta.

CASH FLOW *per share*BOE *per day*RESERVES *as BOE*

Performance

	1992	1993	1994	1995	1996	1997	1998	1999E
BOE/d	141	188	309	428	416	530	640	790
Reserves, BOE	n/a	586,800	1,160,718	1,603,881	2,453,438	2,823,800	2,994,000	3,622,000
Revenue, dollars	\$619,966	\$1,093,057	\$2,146,089	\$2,904,983	\$3,347,935	\$4,032,439	\$3,863,624	\$5,600,000
NAV, per share	n/a	\$1.02	\$1.27	\$1.50	\$1.88	\$2.69	\$2.72	\$3.10
Cash Flow, dollars	\$266,748	\$635,302	\$1,411,662	\$1,830,976	\$2,001,692	\$2,159,558	\$1,977,125	\$3,027,000
Cash Flow per share	\$0.07	\$0.14	\$0.23	\$0.30	\$0.33	\$0.35	\$0.31	\$0.47
Debt, dollars	0	0	0	49.6	1,468,545	2,321,903	2,165,359	3,650,000
Debt to cash flow ratio				n/m	0.73	1.1	1.1	1.2
Shares outstanding	3,821,524	6,000,000	6,065,394	6,065,394	6,065,394	6,465,394	6,392,310	6,300,000

Venator has established a multi-year track record of sustainable and consistent growth which for a large part has been achieved with internally generated capital.

Highlights

	% Change	1 9 9 8	1 9 9 7
FINANCIAL			
Revenues	- 4%	\$ 3,863,624	\$ 4,032,439
Net production income	- 2%	\$ 3,556,535	\$ 3,614,782
Cash generated from operations	- 8%	\$ 1,977,125	\$ 2,159,558
Cash generated from operations per share	- 11%	\$ 0.31	\$ 0.35
Cash generated from operations per BOE	- 24%	\$ 8.48	\$ 11.16
Net earnings	- 47%	\$ 361,250	\$ 682,600
Capital expenditures	- 60%	\$ 1,589,581	\$ 3,972,914
Net asset value (15% NPW)	—	\$ 17,410,051	\$ 17,369,358
Net asset value per share	+ 1%	\$ 2.72	\$ 2.69
Net debt	- 7%	\$ 2,165,359	\$ 2,321,903
Ratio of debt to cashflow	—	1.1	1.1
Common shares outstanding at year end	- 1%	6,392,310	6,465,394
PRODUCTION (Before royalties)			
Crude oil and gas liquids - barrels per day	+18%	482	410
Natural gas - thousand cubic feet per day	+32%	1,586	1,198
Total barrels of oil equivalent (BOE)	+21%	640	530
UNDEVELOPED LANDHOLDINGS (Acres)			
Gross	- 9%	30,880	33,760
Net	+12%	22,451	20,099

Venator Petroleum Company Ltd. is a junior oil and gas company engaged in exploration, development and producing operations in Western Canada. The Company has a multi-year track record of increasing production levels while maintaining low finding costs. Venator has a low debt level and high profitability from quality petroleum and natural gas properties.

Report to Shareholders

BIG PICTURE • In 1998, as crude oil prices continued to reach record lows, the strengths and weaknesses of oil and gas companies became apparent. Industry participants were reminded that the ability to weather downturns and react quickly to new opportunities is essential to ensuring growth and successful long term investment results in the oil and gas business.

Amid severe distress in the producer sector, Venator's 1998 results clearly place it in the top ranks of industry performance. Venator's high quality core areas delivered increased production and stable revenue, and our conservative fiscal management assured investors and helped sustain our share price. Our operating and financial performance also positioned us to capitalize on depressed industry conditions by executing a favourable core area acquisition early in 1999. Our principal projects all have significant upside and we look forward to participating in several exciting exploration prospects over the next year.

PHILOSOPHY • Our portfolio of long life, high quality properties provide a stable stream of production and cashflow that is reinvested as oppor-

tunities arise.

When land, reserves and production can be purchased for reasonable valuations, such as during an industry downturn, Venator actively adds to its core area positions. In what we call a boom or seller's market, where production acquisitions are priced too high due to a flood of capital, Venator will develop and secure drilling prospects and offer them for farmout to industry partners in addition to its own drilling budget. The end result is that the Company nurtures its capital and concentrates on programs where money can be made by keeping finding (input) costs low.

For example during 1998, activity was dominated by three wells drilled at Wapiti, two of which were under farmout arrangements. In this manner, we controlled the allocation of risk capital and obtained significant interests in three gas wells at a fraction of the cost of participating in all drilling operations.

In early 1999, we began to see compelling acquisition opportunities and purchased a key interest within our Enchant core area at a very attractive price. We are already preparing to unitize and water-

flood this property which, along with our other core properties, will provide sustained and consistent production to fund our future projects.

REPORT CARD • Operationally, Venator posted increased oil and gas production, reserves and asset value per share. Gas production increased 32% to 1,586 mcf/day from 1,198 mcf/day recorded in 1997. Crude oil and liquids production increased 18% to average 482 b/d from 410 b/d in 1997, while total average BOE production rose 21% to 640 BOE/d. The net asset value per share actually increased to \$2.72 per share based on proved and probable reserves of 3 million BOE. Finding, development and onstream costs were \$3.94 per BOE on a proven and probable basis.

Financially, revenues and cashflow were modestly lower while earnings were reduced due to increased (non-cash) depletion expense from higher production levels. Revenues from oil and gas sales were down 4% to \$3,863,624 compared with \$4,032,439 in 1997. Cash generated from operations declined 8% to \$1,977,125 (\$0.31 per share) from \$2,159,558 (\$0.35 per share). Net earnings were lower at \$361,250 (\$0.06 per share) compared to \$682,600 (\$0.11 per share).

The 1998 average BOE netback, including a profitable crude oil hedge, was \$10.71 per BOE which provides for a robust recycle ratio of 2.5. The year end negative working capital balance, including all debt, was \$2,165,359 which provides for a debt to trailing cash flow ratio of 1.1.

In summary, our story reads well. Production, reserves and most importantly, the net asset value per share were increased in a year where crude prices declined by about 30%. Finding costs were low, in the four dollar per BOE range, and the recycle ratio (profitability) was excellent. Debt levels were modest. Venator has one class of shares with a low number, 6.4 million outstanding. Success has a large impact on share value.

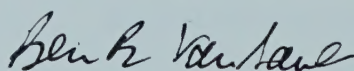
Your Company is among a select number of oil and gas companies that will emerge from this downturn stronger than ever and with its track record intact.

FORECAST • Venator has a record budget of approximately \$6 million available in 1999. We see opportunities to add reserves at attractive prices in the acquisition market and anticipate allocating 50 - 60% of the budget to this area. The remainder will be allocated between undeveloped land and drilling and facilities with wells currently planned at Alderson and Progress, and facilities at Enchant. We believe there may be opportunities for farmin on quality acreage and have room in our budget for several contingent wells. While the stock market remains subdued, Venator plans to continue its normal course issuer bid.

Your Company has established a multi-year track record of sustainable and consistent growth, which for a large part has been achieved with internally generated capital. We focus on increasing net asset value per share through low finding and development costs and high netbacks from quality, long life oil and gas properties. The risk capital portion of our budget is carefully controlled to provide upside leverage to the Company with the minimum of exposure. We plan to continue this program and are excited by our prospects for 1999. We expect record production volumes and with the recent recovery seen in oil prices, financial results should be significantly increased.

As always, we wish to thank you, our shareholders, for your continued support and encouragement.

On behalf of the Board,



Ben F. Van Sant
President, Director
April 15, 1999

Venator operates in two core areas: northwestern Alberta (Peace River Arch) and southeastern Alberta.

Properties in our core areas are characterized by multi-zone potential for natural gas and stable long life oil production amenable to waterflood.

Exploration & Development

Gas Properties

WAPITI • Venator's Wapiti project area is at the center of the most active natural gas play in Alberta. It is unusual for a small company to have a large land position (7,040 acres with a 49% average interest) in an area dominated by much larger companies. Venator has benefited from industry activity by having wells drilled under two separate farmout agreements. The first well (13-21) was placed onstream in December 1997 and is capable of producing about 2mmcf/d and 120 b/d of NGL's (320 BOE/d). Venator has a 15% royalty interest which converts to a 50% interest at payout.

Following the initial well, Venator participated in accumulating a significant acreage position which was then farmed out to a major company who drilled, cased and tested a well at 4-23 targeting deeper zones than the 13-21 well. Upon abandonment notice from the major company, Venator elected to takeover the 4-23 well and successfully completed it as a gas well. The partner took a penalty on the takeover giving Venator a 100% interest subject to penalty payout. The major company then decided to drill a third well (7-22) which Venator (50%) also took over on abandonment notice and completed uphole as a gas well.

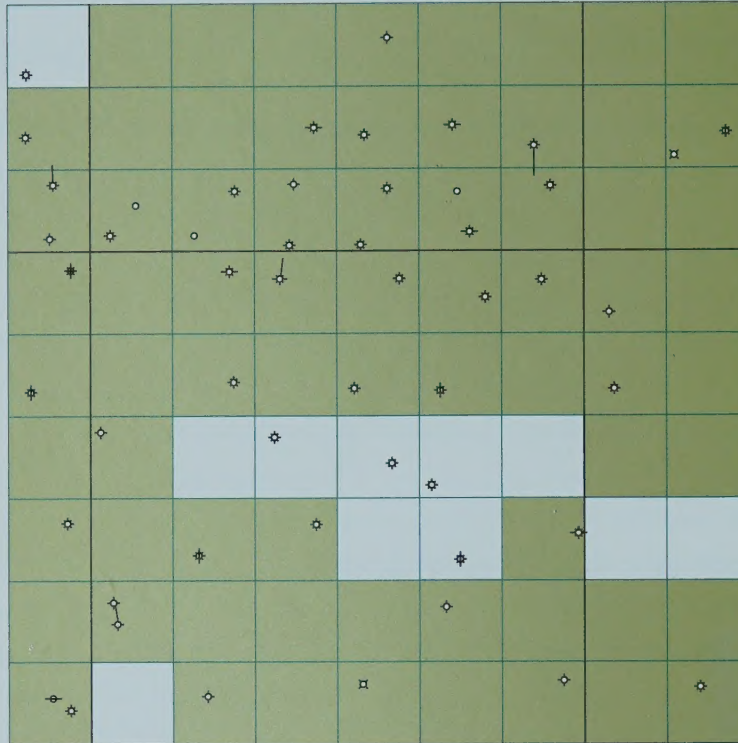
Wellsite, facility and pipeline construction were completed in November with 4-23 coming onstream at about 300 BOE/d and 7-22 at about 250 BOE/d.

Unfortunately, all three wells were shut in December as a surge of owner's gas filled available capacity at the Wapiti gas plant. Venator nominated into the recent expansion of inlet compression and the wells were brought back onstream at the end of March. We expect some volume restrictions over the next few months until further capacity becomes available.

Wapiti is a multizone gas prone area with exciting industry activity and potential. Venator has benefited by leveraging its land position into significant interests in three gas wells at modest cost. Over time, due to owner production declines, we expect more capacity to become available at the Wapiti plant allowing Venator to further drill and develop its large land position.

SINCLAIR • A section of land was purchased adjacent to Venator's 100% interest gas well at Sinclair which produces about 100 BOE/d. Reentry, completion and stimulation work is scheduled in 1999 for an abandoned wellbore as a cost effective way to access the producing zone. Venator is cur-

Wapiti



 VENATOR LAND	 SERVICE
☆ GAS WELL	◇ ABANDONED
● OIL WELL	✦ ABANDONED, GAS
✱ OIL & GAS WELL	✧ ABANDONED, OIL
○ LOCATION	∅ SUSPENDED

rently looking at opportunities to expand its position in this multizone gas area.

Oil Properties

ENCHANT / HAYS • Venator has interests in seven different Arcs pools which are characterized by stable, long life medium gravity crude production. With limited capital investment, production remained flat (156 BOE/d in 1998 vs. 160 BOE/d in 1997). One well was drilled at 15-35 (Venator 58%) which encountered marginal quality reservoir and was abandoned.

In early 1999, Venator purchased, for \$1.78 million, about 110 BOE/d of production which provided an additional interest in one pool and interests in two new pools. We expect this acquisition to facilitate unitization and waterflood of several pools. Excellent results with increasing production rates and high recoveries have occurred in all current Arcs zone waterfloods in this area.

PROGRESS UNIT / NON-UNIT / PROGRESS EAST • The Progress property provides Venator with steady, long life light oil production. As the waterflood of the Progress Doe

Enchant



 VENATOR LAND	 INJECTION
✱ GAS WELL	 ✱ ABANDONED
● OIL WELL	 ✱ ABANDONED, GAS
✱ OIL & GAS WELL	 ✱ ABANDONED, OIL
 LOCATION	 ✱ SUSPENDED

Creek unit (Venator 7.87%) has taken effect, gross production has risen steadily throughout 1998 from 1565 b/d to about 1750 b/d. Further infill opportunities exist within the unit.

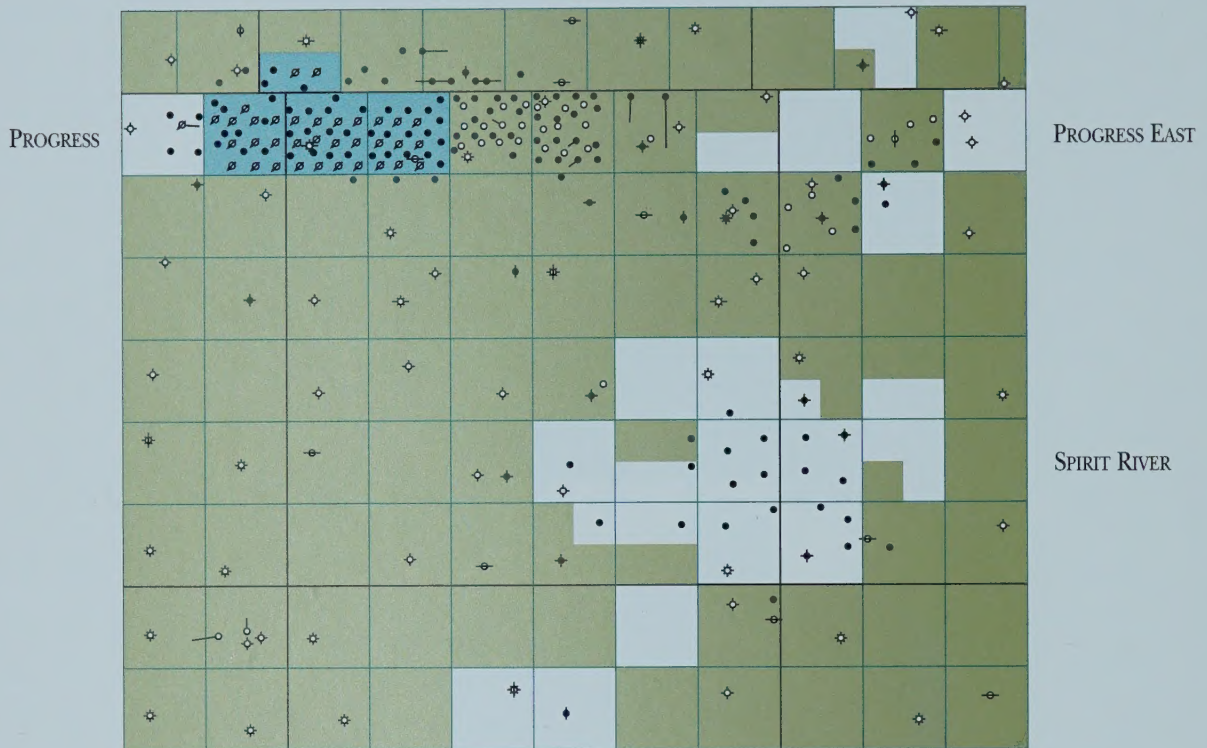
Venator has a 27% interest in one section of non-unit land immediately adjacent to the Progress unit. A horizontal well was converted to injection in 1998 and the offsetting producers have responded with production increases of about 50% (15 b/d net). This section also contains a number of potential infill locations.

At Progress East, Venator acquired further acreage to expand upon its large land position which averages

39% in 2720 acres. The Doe Creek zone that is producing in the Progress unit and non-unit is present in several old abandoned wells drilled on Venator's land. Significant oil in place reserves can already be mapped on these lands and three wells (Venator's average 37% interest) are planned to further delineate this pool. Due to the favourable waterflood response in the unit and non-unit, it is likely that a waterflood project will be undertaken on this project in due course.

SPIRIT RIVER • At Spirit River, unitization of the Charlie Lake pool has been agreed upon sub-

Progress / Spirit River



 VENATOR LAND	 INJECTION
 VENATOR UNIT LAND	 ABANDONED
 GAS WELL	 ABANDONED, GAS
 OIL WELL	 ABANDONED, OIL
 LOCATION	 SUSPENDED

ject to final documentation. We anticipate about 15% overall interest in the unit (current net production is about 22 b/d). A pilot waterflood will likely start up this year following upon successful testing of source and injection wells in 1998. This pool is also an excellent candidate for waterflood with considerable remaining oil in place estimated at greater than 10 million barrels. We expect oil recoveries to double to around 30% once a full scale waterflood is in place.

NEW PROSPECTS • The Company continues to acquire land and develop new plays on the

Peace River Arch and in Southern Alberta. During the year, 8400 net acres of undeveloped exploration acreage was acquired. Through its undeveloped land, Venator attains exposure to higher risk/reward opportunities. For example, at Spirit River Venator is anxiously watching a gas well directly offsetting Venator's 100% acreage. The well has recently been placed onstream by a competitor at approximately 5 mmcf/d. If production from this well holds up, Venator will likely drill it's land in 1999.

Operation Highlights

	1998	1997
PRODUCTION		
Crude oil (b/d)	396	370
Natural gas liquids (b/d)	84	40
Natural gas (mcf/d)	1,586	1,199
Total (BOE/d)	640	530
PRICES REALIZED		
Crude oil (per bbl)	\$ 15.48	\$ 21.89
Natural gas (per mcf)	\$ 1.96	\$ 1.56
Average (per BOE)	\$ 16.49	\$ 20.46
EXPENSES AND NETBACKS		
Average BOE operating expense	\$ 4.44	\$ 5.44
Average BOE royalty expense	\$ 1.34	\$ 2.20
Average oil netback (per bbl)	\$ 9.69	\$ 14.25
Average gas netback (per mcf)	\$ 1.38	\$ 0.79
Average netback BOE	\$ 10.71	\$ 12.82
G & A expense per BOE	\$ 1.68	\$ 1.62
Cashflow per BOE	\$ 8.48	\$ 11.16

Net Earnings

1994	\$425,856
1995	\$452,815
1996	\$630,539
1997	\$682,600
1998	\$361,250

Cash Flow

1994	\$1,411,662
1995	\$1,830,976
1996	\$2,001,692
1997	\$2,159,558
1998	\$1,977,125

Management's Discussion & Financial Analysis

REVENUES AND EXPENSES • Production revenues decreased marginally to \$3,863,624 in 1998 from \$4,032,439 in 1997. Production volume increases in crude oil, NGL's and natural gas, together with a positive crude oil price hedge of \$176,990, helped to offset about a 30% decline in crude oil prices to \$15.48 per bbl. Gas prices improved 26% to average \$1.96 per mcf. Venator has a mix of two gas contracts, one with a large aggregator and one floating in the Alberta spot market. Crude oil is generally sold in the spot market, however, price hedging arrangements are entered into from time to time, although none were in place at year end 1998. Average operating netbacks decreased 16% to \$10.71 per BOE from \$12.82 per BOE due to lower crude oil prices. Operating and royalty expense levels improved considerably from the previous year and the Company believes it may be able to make an additional claim for the Alberta Royalty Tax Credit.

EQUITY AND CAPITAL RESOURCES • Net capital expenditures for the year decreased 60% to \$1,589,581. The majority of the capital expenditures were allocated to Wapiti, where two gas wells were completed and tied in, and for purchasing undeveloped land on new prospects at Alderson, Sinclair, Wapiti and Spirit River. Producing properties totalling \$737,000 were sold at Salvador and Wembley as they did not meet the Company's producing life criteria.

On April 12, 1998, the Company began a normal course issuer bid program on the Alberta Stock Exchange actively purchasing for cancellation up to 5% of its stock per year. At year end, 267,400 shares had been purchased at a cost of \$421,580 or an average price of \$1.58 per share. Outstanding shares at year end totaled 6,392,310. Based on 1998 year end reserves evaluated by McDaniel and Associates, a share of the Company equates to 0.47 BOE of reserves. At an average price of \$1.58 per share, the Company can be considered to be purchasing reserves in the ground at approximately \$3.70 per BOE, which is a very attractive cost for high quality reserves. This calculation

includes a debt component of \$0.34 per BOE.

The negative working capital balance at year end including all debt was \$2,165,359 and the debt to 1998 (trailing) cash flow ratio is 1.1. The Company conservatively manages its corporate debt and has considerable room on its credit line if required. The current indication from the Company's bank is that the bank line could rise to \$7 million.

NET ASSET VALUE • The Company's petroleum and natural gas properties were evaluated by McDaniel and Associates, an independent engineering company, as of December 31, 1998. The Company's undeveloped land position (22,451 net acres) was evaluated by an independent land consultant, Sapphire Resources Ltd. The net asset value per share increased slightly to \$2.72 from \$2.69 recorded in 1997 (15% NPW discount rate, probable reserves risked 50%, escalated prices).

PERFORMANCE MEASURES • The Company increased its proved and probable reserves (including 1998 production) by 403,216 BOE. Net capital expenditures of \$1,589,581 resulted in a finding, developing and onstream cost of \$3.94 per BOE. On a proven basis, 362,756 BOE were added resulting in finding, developing and onstream costs of \$4.38 per BOE. The reserve replacement ratio was 1.7 and the reinvestment efficiency or recycle ratio was 2.5 on a proved and probable basis. Venator maintains top decile performance with low reserve finding costs and high profitability.

YEAR 2000 • Venator has carefully reviewed its Y2K exposure. As a typical junior oil and gas producer, Venator does not operate large production or pipeline facilities which rely on microprocessor technology. In general, these facilities are operated by major companies that have Y2K programs in place. In our offices, accounting, land management and secretarial operations have been scrutinized and upgraded to year 2000 readiness.

1998 Reserve Reconciliation

	Proven			Probable			Total
	<i>Oil (bbl)</i>	<i>NGL (bbl)</i>	<i>Gas (mcf)</i>	<i>Oil (bbl)</i>	<i>NGL (bbl)</i>	<i>Gas (mcf)</i>	<i>BOE</i>
Reserves Dec. 31, 1997	1,402,700	131,600	3,795,600	765,100	19,800	1,754,800	2,823,800
Additions	56,241	135,134	2,827,407	(152,100)	91,900	1,184,900	
Dispositions			(1,113,600)			(682,000)	
Production	(144,641)	(30,634)	(577,407)				
Reserves Dec. 31, 1998	1,314,300	236,100	4,932,000	613,000	111,700	2,257,700	2,994,000

Oil and Natural Gas Revenue

	% Change	1998	1997
Crude oil	- 24%	\$ 2,434,083	\$ 3,193,692
Natural gas and gas liquids	+70%	1,429,541	838,747
Total	- 4%	\$ 3,863,624	\$ 4,032,439

Net Asset Value

	NPW 15%	NPW 10%
P & NG Properties (Probables Risked 50%)	\$ 17,507,250	\$ 20,871,000
Net Working Capital	(2,165,359)	(2,165,359)
Undeveloped Land	2,068,160	2,068,160
Net Asset Value	\$ 17,410,051	\$ 20,773,801
Net Asset Value Per Share (6,392,310 shares outstanding)	\$ 2.72	\$ 3.25

Management's Report

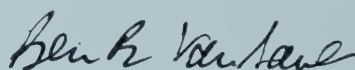
The accompanying financial statements of Venator Petroleum Company Ltd. and all information in the Annual Report are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada and include some amounts that are based on management's best estimates. Financial and operating data elsewhere in the Annual Report are consistent with the information contained in the financial statements in all material respects.

In fulfilling their responsibilities, management of Venator Petroleum ensures that systems of internal accounting controls are designed to provide reasonable assurance that assets are safe-guarded and

financial records are properly maintained to provide reliable financial statements.

External Auditors appointed by the shareholders have examined the financial statements. The Audit Committee, consisting of a majority of non-management directors, has reviewed these financial statements with management (and the auditors) and has reported to the Board of Directors. The Board has approved the financial statements.



Ben F. Van Sant
President, Director
April 15, 1999

Auditors' Report

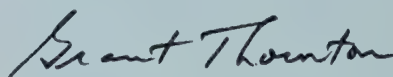
TO THE SHAREHOLDERS OF VENATOR PETROLEUM COMPANY LTD.

We have audited the balance sheets of Venator Petroleum Company Ltd. as at December 31, 1998 and 1997 and the statements of operations and retained earnings and statements of cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the

accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1998 and 1997 and the results of its operations and its cash flows for the years then ended in accordance with generally accepted accounting principles.



Chartered Accountants
Calgary, Alberta
February 19, 1999

Venator Petroleum Company Ltd.
Balance Sheets

	December 31, 1998	December 31, 1997
ASSETS		
Current		
Receivables	\$ 550,155	\$ 500,402
Property and equipment (<i>Note 3</i>)	12,017,328	12,074,829
	<u>\$ 12,567,483</u>	<u>\$ 12,799,271</u>
LIABILITIES		
Current		
Bank indebtedness (<i>Note 4</i>)	\$ 1,761,806	\$ 1,664,092
Payables and accruals	950,298	1,177,025
Income taxes payable	3,300	9,000
	<u>2,715,404</u>	<u>2,850,117</u>
Site restoration and abandonments (<i>Note 5</i>)	203,100	170,000
Deferred income taxes	1,886,200	1,571,333
	<u>4,804,814</u>	<u>4,777,944</u>
SHAREHOLDERS' EQUITY		
Capital stock (<i>Note 6</i>)	4,913,820	5,907,100
Retained earnings	2,848,849	2,005,177
	<u>7,762,669</u>	<u>7,912,277</u>
	<u>\$ 12,567,483</u>	<u>\$ 12,799,271</u>
Uncertainty (<i>Note 11</i>)		

See accompanying notes to the financial statements.

On behalf of the Board

Ben K. VanSandt

Director

Bob L. ...

Director

Venator Petroleum Company Ltd.

*Statement of Operations and
Retained Earnings*

	Year ended December 31, 1998	Year ended December 31, 1997
REVENUE		
Petroleum and natural gas sales	\$ 3,863,624	\$ 4,032,439
Royalties, net	(311,999)	(426,708)
	3,551,625	3,605,731
Interest and other income	4,910	9,051
	3,556,535	3,614,782
EXPENSES		
Operating	1,034,265	1,052,963
General and administrative	390,327	314,234
Depletion and depreciation	1,304,005	952,518
Interest	152,366	82,427
	2,880,963	2,402,142
Earnings before income taxes	675,572	1,212,640
Income taxes (<i>Vote 7</i>)		
Current	2,452	5,600
Deferred	311,870	524,440
	314,322	530,040
NET EARNINGS	361,250	682,600
Retained earnings, beginning of year	2,635,177	1,952,577
Premium on repurchase of capital stock (<i>Vote 6</i>)	(147,578)	-
Retained earnings, end of year	\$ 2,848,849	\$ 2,635,177
EARNINGS per share		
Basic	\$ 0.06	\$ 0.11

See accompanying notes to the financial statements.

Venator Petroleum Company Ltd.
Statements of Cash Flows

	Year ended December 31, 1998	Year ended December 31, 1997
CASH FLOW FROM OPERATING ACTIVITIES		
Petroleum and natural gas sales	\$ 3,908,745	\$ 3,096,572
Royalties, net of tax credit	(320,855)	(111,290)
Interest income	4910	0,091
Operating expenses	(1,177,502)	(910,001)
General and administrative	(402,503)	(311,711)
Interest	(152,160)	(82,190)
Income Taxes	(4,552)	-
Cash flow from operating activities	<u>1,856,085</u>	<u>2,127,110</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Resource property and equipment additions	(2,459,029)	(1,770,017)
Proceeds on disposal of resource properties	737,000	(22,207)
Cash flow used in investing activities	<u>(1,722,029)</u>	<u>(1,792,224)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Repurchase and cancellation of shares	(425,491)	-
Options exercised	194,316	-
Issue of flow-through shares	-	(900,000)
Cash flow (used in) from financing activities	<u>(231,175)</u>	<u>(900,000)</u>
Net decrease in cash	(97,124)	(565,270)
Bank indebtedness, beginning of year	(1,664,682)	(801,112)
Bank indebtedness, end of year	<u>\$ (1,761,806)</u>	<u>\$ (1,366,382)</u>
Cash flow from operations per share	<u>\$ 0.31</u>	<u>\$ 0.36</u>

See accompanying notes to the financial statements.

Venator Petroleum Company Ltd.

Notes to the Financial Statements

December 31, 1998

Note 1. NATURE OF OPERATIONS

The Company is engaged in the exploration for and production of petroleum and natural gas in a single cost centre being Western Canada.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with generally accepted accounting principles, and reflect the following policies:

a) Property and equipment •

i) *Capitalized costs* • The Company follows the full cost method of accounting for its petroleum and natural gas operations. Under this method all costs related to the exploration for and development of petroleum and natural gas reserves are capitalized. Costs include lease acquisition costs, geological and geophysical expenses, overhead directly related to exploration and development activities and costs of drilling both productive and non-productive wells, less estimated tax benefits transferred to shareholders pursuant to flow-through share issues. Proceeds from the sale of properties are applied against capitalized costs, without any gain or loss being realized, unless such sale would significantly alter the rate of depletion and depreciation.

ii) *Depletion and depreciation* • Depletion of petroleum and natural gas properties and depreciation of production equipment is provided using the unit-of-production method based upon estimated proved petroleum and natural gas reserves. The costs of significant unevaluated properties are excluded from costs subject to depletion. For depletion and depreciation purposes, relative volumes of petroleum and natural gas production and reserves are converted at the energy equivalent conversion rate of six thousand cubic feet of natural gas to one barrel of crude oil.

Office equipment is depreciated over the estimated useful life of the asset at declining balance basis at rates ranging from 20% to 100%.

iii) *Ceiling test* • In applying the full cost method, the

Company calculates a ceiling test whereby the carrying value of petroleum and natural gas properties and production equipment, net of recorded deferred income taxes and the accumulated provision for site restoration and abandonment costs, is compared annually to an estimate of future net cash flow from the production of proved reserves. Net cash flow is estimated using year end prices, less estimated future general and administrative expenses, financing costs and income taxes. Should this comparison indicate an excess carrying value, the excess is charged against earnings as additional depletion and depreciation.

b) Future site restoration and abandonment costs •

Estimated future costs relating to site restoration and abandonments are provided for over the life of proved reserves on a unit-of-production basis. Costs are estimated, net of expected recoveries based upon current legislation, costs, technology and industry standards. The annual provision is recorded as additional depletion and depreciation. The accumulated provision is reflected as a non-current liability and actual expenditures are charged against the accumulated provision when incurred.

c) *Use of estimates* • The preparation of the financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from and affect the results reported in these financial statements.

d) *Financial instruments* • The Company has estimated the fair value of its financial instruments

which include receivables, bank indebtedness, payables and accruals and income taxes payable. The Company has used valuation methodologies and market information available as at year end and has determined that the carrying amounts of such financial instruments approximate fair value in all cases.

The Company periodically enters into contracts to hedge its exposure to price declines on a portion of its petroleum production. Gains or losses on these contracts are netted against revenue in the related production period.

e) Statement of cash flows • The Company has adopted in the current year the Handbook requirements of the Canadian Institute of Chartered Accountants in preparing its statement of cash flows. Certain of the

comparative figures for the year ended December 31, 1997 have been restated to reflect the presentation adopted in the current year.

f) Joint operations • Substantially all petroleum and natural gas activities are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

g) Flow-through common shares • Resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. Petroleum and natural gas properties and capital stock are reduced by the estimated tax benefits transferred to shareholders.

Note 3. PROPERTY AND EQUIPMENT

	December 31, 1998	December 31, 1997
Petroleum and natural gas properties	\$ 14,559,713	\$ 13,314,181
Tax benefits transferred to shareholders	(1,521,205)	(1,151,463)
	13,038,508	12,162,718
Accumulated depletion	(4,262,771)	(3,408,210)
	8,775,737	8,754,508
Production equipment	4,853,648	4,514,539
Office equipment	47,131	42,368
Accumulated depreciation	(1,659,188)	(1,236,543)
	3,241,591	3,320,364
	\$ 12,017,328	\$ 12,074,872

During 1998, the Company capitalized general and administrative expenses of \$232,471 (1997 - \$191,741) related to acquisition, exploration and development activities.

Future capital expenditures of \$467,400 (1997 - \$206,500) as estimated by independent engineers, relating to the development of proved non-producing reserves have been included in costs subject to depletion. Undeveloped properties with a cost of \$1,215,000 (1997 - \$892,000) included in exploration and development costs have not been subject to depletion.

The Company has financed a portion of its exploration and development activities through the issue of flow-through shares. As a result, petroleum and natural gas properties with a cost of \$3,562,541 (1997 - \$2,733,422) have no cost basis for income tax purposes and are carried net of the estimated tax benefits transferred to shareholders.

During 1998, the Company reduced the carrying value of petroleum and natural gas properties, by \$369,742 (1997 - \$61,514) to recognize the foregone tax benefits to the Company of qualifying exploration and development expenditures incurred and previously renounced to the purchasers of its flow-through shares.

Note 4. BANK INDEBTEDNESS

Bank indebtedness is comprised of a demand loan in the amount of \$1,550,000 (1997 - \$2,270,000), net of cash balances.

The demand bank loan was advanced pursuant to a credit facility in the maximum amount of \$3,000,000. The loan bears interest at the bank prime rate plus 0.25%. The Company has pledged as security for the debt a \$2,000,000 floating charge oil and gas debenture covering substantially all of the Company's petroleum and natural gas properties, as well as a General Security Agreement and floating charge on land.

Note 5. FUTURE SITE RESTORATION AND ABANDONMENT COSTS

At December 31, 1998, the total future costs of well abandonments and site restorations, net of expected recoveries, are estimated to aggregate approximately \$378,100 (1997 - \$409,700) of which \$203,100 (1997 - \$176,300) has been provided for in the accounts.

Note 6. CAPITAL STOCK

a) Authorized:

Unlimited number of common shares without par value. Unlimited number of Class A preferred shares issuable in series. Unlimited number of Class B preferred shares issuable in series.

b) Issued:

	1998		1997	
	# of Shares	Stated Value	# of Shares	Stated Value
Common shares issued:				
Beginning of year	6,465,394	\$ 5,367,162	6,065,394	\$ 4,468,676
Shares repurchased and cancelled	(267,400)	(277,916)	-	-
Exercise of options	194,316	194,316	-	-
Flow-through shares issued	-	-	400,000	960,000
Tax effect renounced expenditures	-	(369,742)	-	(61,514)
End of year	6,392,310	\$ 4,913,820	6,465,394	\$ 5,367,162

During the year, the Company repurchased and subsequently cancelled 267,400 previously issued common shares for total consideration of \$425,494 including share repurchase costs. The difference between the redemption price and carrying value was charged to retained earnings.

c) Flow-through shares • Under the terms of the 1997 flow-through common share agreement, the Company was required to expend the proceeds of \$960,000 on qualifying petroleum and natural gas expenditures prior to December 31, 1998. During 1998, all of the remaining expenditures were made in compliance with the terms of the agreement.

d) Outstanding options • Under share option agreements, the Company has reserved common shares for issuance to eligible participants as outlined below:

<i>Number Issued</i>	<i>Price</i>	<i>Expiry Date</i>
55,728	\$0.76	October 31, 1999
30,000	\$1.00	October 31, 1999
68,378	\$0.76	December 3, 1999
180,000	\$1.90	December 2, 2002
200,000	\$1.50	December 31, 2003

The weighted average price of the above options is \$1.44 per share; 1997 - \$1.25.

Note 7. INCOME TAXES

a) Provision for income taxes • The total provision for income taxes differs from the expected amount calculated by applying the combined basic Federal and Provincial tax rate of approximately 44.6% to earnings before income taxes. This difference results from the following items:

	December 31, 1998	December 31, 1997
Expected income tax expense	\$ 302,504	\$ 541,000
Increase (decrease) resulting from:		
Non-deductible crown charges	199,939	271,697
Depletion of assets without a tax base	53,998	25,000
Resource allowance	(177,275)	(226,000)
Royalty tax credits	(68,844)	(73,000)
Other deductions and adjustments	4,000	(8,657)
Provision for income taxes	\$ 314,322	\$ 530,040

b) Available tax deductions • The Company has available the following approximate amounts which may be deducted in determining taxable income of future years. The amounts are deductible at the annual rates indicated:

	Rate	December 31, 1998	December 31, 1997
Canadian exploration expense	100%	\$ 788,000	\$ 805,000
Canadian development expense	30%	\$ 1,173,000	\$ 1,676,000
Canadian oil and gas property expense	10%	\$ 2,268,000	\$ 2,546,000
Undepreciated capital cost	20%	\$ 2,213,000	\$ 2,551,000
Share issue costs	20%	\$ 3,300	\$ 16,000

Note 8. EARNINGS AND CASH FLOW FROM OPERATIONS PER SHARE

Earnings per share and cash flow from operations per share is calculated based upon the weighted average number of common shares outstanding during the year 1998 - 6,460,997 (1997 - 6,098,727). The exercise of outstanding options have no dilutive effect on earnings per share and cash flow from operations per share.

Note 9. RISK MANAGEMENT

In October, 1997, the Company hedged 100 barrels per day of crude oil production until September, 1998 at an average price of \$28.70 Cdn. per barrel. Subsequent to the expiration of this contract, no further hedges were negotiated.

Note 10. STATEMENT OF CASH FLOWS

During the year, resource properties and equipment were acquired at an aggregate cost of \$2,326,581 (1997 - \$4,595,211), of which cash payments of \$2,459,029 (1997 - \$4,570,015) were made. The remaining balance is reflected within payables and accruals.

Note 11. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using Year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

Note 12. SUBSEQUENT EVENT

Subsequent to year end, the Company renegotiated the terms of their credit facility discussed in Note 4, to increase the maximum amount available to \$4,000,000. All other terms and conditions remain unchanged.

Abbreviations Used

Item	Definition
<i>mcf/d</i>	thousand cubic feet per day
<i>mmcf/d</i>	million cubic feet per day
<i>b/d</i>	barrels per day
<i>BOE</i>	barrels of oil equivalent (10 mcf per bbl)
<i>BOE/d</i>	barrels of oil equivalent per day

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Calgary, Alberta

Byron J. Seaman

Calgary, Alberta

Benjamin F. Van Sant

Calgary, Alberta

Anthony R. van Winkoop

Calgary, Alberta

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Calgary, Alberta

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Vice-President, Exploration and Operations

Mark S. McKean

Chief Geologist



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